

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

NOTICE OF ADJUSTMENT OF RATES)	
OF NOTTINGHAM SANITATION, INC.)	CASE NO. 8430
TO BECOME EFFECTIVE ON JANUARY)	
21, 1982)	

O R D E R

On December 29, 1981, Nottingham Sanitation, Inc., ("Nottingham") filed an application with this Commission requesting authority to increase its rates by approximately \$34,591 annually, a 69 percent increase. Based on the determination herein the revenues of Nottingham will increase by \$14,705 annually, an increase of 29 percent.

A public hearing was held in this matter on April 15, 1982, in the Commission's offices in Frankfort, Kentucky. The Consumer Protection Division of the Attorney General's Office was permitted to intervene.

COMMENTARY

Nottingham is a privately-owned sewage treatment system serving approximately 385 customers in Jefferson County, Kentucky.

TEST PERIOD

Nottingham proposed and the Commission has adopted the 12-month period ending September 30, 1981, as the test period for determining the reasonableness of the rate approved herein. Appropriate pro forma adjustments have been included for rate-making purposes.

REVENUES AND EXPENSES

Nottingham proposed several adjustments to revenues and expenses as reflected in its Comparative Income Statement, Exhibit B. At the hearing, it proposed three additional adjustments. The Commission is of the opinion that the proposed adjustments are generally proper and acceptable for rate-making purposes with the following modifications:

Equipment Replacement

Nottingham has contracted with Andriot-Davidson Service Company to purchase a new diffused aerator system to replace a mechanical aerator which is in disrepair. The Commission finds this expenditure to be reasonable and essential to the continued operation of the treatment plant. Nottingham provided a letter from Andriot-Davidson stating that the estimated useful life of the new aerator was 8 to 10 years. In the absence of any evidence to the contrary the Commission has adopted the median of this depreciation range, 9 years, and has included an adjustment to depreciation expense of \$1,101.

New Security Equipment

Nottingham requested an adjustment to increase maintenance expense by \$1,120-1,440 to allow sufficient funds to place locks on certain manholes. The owner of Nottingham, Mr. Harold Haering, testified that several manholes have had garbage and other debris thrown into them. Nottingham provided no tangible evidence to support its conclusion that incurring this cost would be the best solution to this problem. Moreover, the Commission is not convinced that this cost is essential to the continued reliable

operation of the system. Therefore, the Commission has disallowed this cost for rate-making purposes.

Extraordinary Maintenance of Ditch Line

Nottingham proposed an adjustment to increase maintenance expense by \$1,200-1,600 to complete cleaning of the ditch line at the sewer treatment plant. A representative of the Commission's engineering staff visited the plant and found that the ditch line is not the line that the plant's effluent flows through but is a stream through the adjacent subdivision into which the sewer treatment plant's underground effluent pipes empty. The Commission has determined that the cleaning up of the ditch line will enhance the development of the subdivision and is not a responsibility of the sewage treatment system. Therefore, this additional cost has not been allowed herein for rate-making purposes.

Expenses Related to Ditch Line

The Commission has determined that \$1,807 was spent during the test period to begin the clean-up of the ditch line discussed above. Because of the nature of this expense, the Commission has made an adjustment to remove this amount from the test year expenses.

Increase in Maintenance Expenses

Nottingham proposed to increase several of its maintenance expense accounts by 10 percent "to reflect the normal inflation increases for outside services." (1) The Commission consistently has disallowed inflation-based adjustments which are neither known

(1) Nottingham's pro forma adjustment number 3.

nor measurable. The Commission sees no reason to depart from its previous policy and has disallowed this adjustment.

Rate Case Expenses

Nottingham proposed an adjustment of \$1,500 for rate case expenses. This adjustment represents the amortization of an estimated \$4,500 fee over a 3-year period. The Commission requested and Nottingham has supplied the final invoices from its accountant and legal counsel for this case. The total expenses were \$6,128, which the Commission has amortized over a 3-year period, resulting in an adjustment of \$2,043.

Collection Fees

Nottingham projected expenses of \$2,526 related to the collection of its bi-monthly sewer bill by the Louisville Water Company. The Commission has increased this expense by \$67 to reflect the apportionment of the joint service cost of the collection agency for each bi-monthly bill which includes a charge for both water and sewer service.

Brush Removal

During the test year Nottingham incurred approximately \$2,061 in expenses related to the removal of brush from the treatment plant area. Explanations given for these expenses include renting a truck and driver to remove brush from the plant and cutting trees near the fence around the plant. The Commission finds that the removal of brush from the plant should not be necessary on a routine basis if the plant is adequately maintained and that cutting trees around the plant should not be a recurring expense. Therefore, the Commission has excluded this cost for rate-making purposes.

Depreciation

Nottingham has requested annual depreciation expense in the amount of \$4,800. This represents depreciation on short-lived property which was allowed in Nottingham's previous case, Case Number 6838. The Commission, since rendering its Order in that case, has changed its policy regarding depreciation on short-lived property and no longer allows it for rate-making purposes when the utility's treatment facilities have been contributed by the consumers. Due to this change in policy and in order to be consistent in the treatment of this issue, the Commission has disallowed this adjustment. Nottingham did not request any other depreciation expense and did not report any plant in service on its balance sheet.

Utilities Expense

Nottingham proposed an adjustment to utilities expense of \$2,963. After inquiries by the Commission, Nottingham notified the Commission that it had incorrectly included approximately \$4,502 of utilities expense in its income statement which should have been charged to its associated company, Nottingham Hills. In computing the utilities expense for Nottingham, the Commission has determined the actual level of KWH and gallonage usage from the actual test year utility bills and has applied the current rates in effect to these usage levels. Sewer charges to Nottingham were also included at the amount charged by the Louisville Water Company. Based on this analysis, the Commission has determined Nottingham's utilities expense to be \$15,642.

Administrative and General Salaries

Nottingham incurred \$5,000 of administrative and general salaries expense during the test period. This amount was paid to Mr. Haering as a management fee for operating the utility. In support of this fee Mr. Haering explained his routine duties and responsibilities. The Commission has reviewed these duties and, as they are similar to the duties performed by owners/operators of similar utilities who receive fees of approximately \$2,400, has allowed a fee of \$2,400 in this case. Therefore, an adjustment has been made to reduce the test year expense by \$2,600.

Office Supplies and Expenses

Nottingham's income statement reflected \$3,517 of office supplies and other expenses. This represents an allocation of 40 percent of the expenses to operate an office that Nottingham shares with two other related companies, Nottingham Hills and Haering Real Estate. Included in the allocation is \$473 of telephone expense charged to Nottingham, \$41 of which is for long distance calls made by Nottingham. The Commission is of the opinion that the allocation of 40 percent of the telephone expense to Nottingham is clearly unfair to its customers. Therefore, the Commission has determined the amount to be charged to Nottingham to be \$229. This represents one-third of the monthly service charge and the \$41 of long distance calls properly chargeable to Nottingham.

Income Taxes

Nottingham has proposed an adjustment for federal, state and Jefferson County income taxes in the amount of \$2,845. The Commission has included a provision of \$1,979, based on the level of

net income allowed herein and the applicable state, federal and county tax rates.

Based on the allowed pro forma adjustments, Nottingham's test period operations appear as follows:

	<u>Actual 9/30/81</u>	<u>Pro Forma Adjustments</u>	<u>Adjusted Test Year</u>
Operating Revenues	\$49,991	-0-	\$49,991
Operating Expenses	59,815	(\$2,717)	57,098
Net Operating Income	<u>(9,824)</u>	<u>\$2,717</u>	<u>\$(7,107)</u>
Interest Expense			
Interest Income	166		166
Net Income	<u>\$ (9,658)</u>	<u>\$2,717</u>	<u>\$(6,941)</u>

The Commission is of the opinion that the operating ratio⁽²⁾ of 88 percent proposed by Nottingham is fair, just and reasonable and should be used in this case. It will permit Nottingham to pay its operating expenses, service its debt and provide a reasonable return to its owners. Therefore, the Commission finds that Nottingham is entitled to increase its rate to produce total revenues of \$64,696 which will require an increase in revenues of \$14,705 annually.

OTHER ISSUES

As noted above, Nottingham shares an office with two related companies, Nottingham Hills and Haering Real Estate. The books and records of Nottingham and Nottingham Hills are kept at the lending agency's office, Future Federal of Louisville. Deposits are made by both Nottingham and Nottingham Hills into a single Future Federal account. When an expense is incurred by either company the invoice is submitted to Future Federal for approval.

$$(2) \text{ Operating Ratio} = \frac{\text{Operating Expenses} + \text{Depreciation} + \text{Taxes}}{\text{Gross Revenue}}$$

Thus, the possibility arises that an expense properly chargeable to one may be incorrectly charged to the other. This occurred at least once during the test period when an expenditure of \$4,502 properly chargeable to Nottingham Hills was incorrectly coded and charged to Nottingham, causing utility expenses to be overstated.

Because of this error and because of the possibility that other errors may occur, the Commission is concerned about the current record-keeping system. The Commission is of the opinion that the solution is the complete separation of the books of account, records, and cash funds of Nottingham and all other entities. The Commission directs Nottingham to separate all books of account, records, and cash funds from those of any other entity.

SUMMARY

The Commission, after consideration of the evidence of record, finds that:

(1) The rate proposed by Nottingham would produce revenues in excess of those found reasonable herein and should be denied upon application of KRS 278.030.

(2) The rate in Appendix A is the fair, just and reasonable rate to charge for sewage service rendered by Nottingham and will permit it to meet reasonable operating expenses and accumulate a reasonable surplus for equity growth.

IT IS THEREFORE ORDERED that the rate proposed by Nottingham be and it hereby is denied upon application of KRS 278.030.

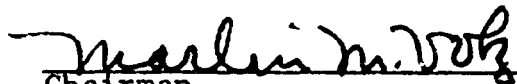
IT IS FURTHER ORDERED that the rate in Appendix A be and it hereby is fixed as the fair, just and reasonable rate of Nottingham Sanitation, Inc., to become effective for sewer service rendered on and after the date of this Order.

IT IS FURTHER ORDERED that within 20 days of the date of this Order, Nottingham shall file with this Commission its tariff sheets setting forth the rates and charges approved herein.


IT IS FURTHER ORDERED that Nottingham shall separate all books of account, records, and cash funds of Nottingham Hills from those of other entities.

Done at Frankfort, Kentucky, this 21st day of June, 1982.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE
COMMISSION IN CASE NO. 8430 DATED JUNE 21, 1982

The following rates are prescribed for all customers served by Nottingham Sanitation, located in northeast Jefferson County, Kentucky. All other rates and charges not specifically mentioned herein shall remain the same as those in effect prior to the date of this order.

Applicable:

<u>Monthly Service Charge</u>	<u>Rate</u>
Single-Family Residence	\$14.16